

Disbursing FSA Funds CHAPTER 2

These rules apply to the following programs: Pell Grants, TEACH, Iraq and Afghanistan Service Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), Perkins Loans, and Direct Loans. We have indicated when a rule applies to Federal Work-Study (FWS) funds. This chapter will discuss the rules for crediting federal student aid (FSA) funds to the student's account and making direct disbursements to the student or to the parent (PLUS), with provisions for early disbursements, delayed disbursements, and late disbursements.

NOTIFICATIONS

Notification of disbursement

In general, there are two types of notifications a school must provide: (1) a general notification to all students receiving FSA funds, and (2) a notice when FSA loan funds or TEACH Grant funds are credited to a student's account.

General notification

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made.

If the funds include a Direct Loan, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. A school must provide the best information that it has regarding the amount of FSA program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), you may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Loan and TEACH Grant notification

Except in the case of loan funds made as part of a post-withdrawal disbursement, when Perkins Loan, Direct Loan or TEACH funds are being credited to a student's account, the school must also notify the borrower in writing (paper or electronically) of the:

- ♦ anticipated date and amount of the disbursement;
- ♦ borrower's right to cancel all or part of the loan or disbursement; and

Notices and Authorizations

34 CFR 668.165

Note on Iraq and Afghanistan Service Grants

The HEA (Sec. 420R(d)) specifies that those grants shall be awarded in the same manner, and with the same terms and conditions, as Federal Pell Grants.

Borrower Notification via email

If you are notifying the student of the next disbursement by email or other electronic means, you are encouraged to follow up on any electronic notice for which you receive an "undeliverable" message.

The loan notification requirements for post-withdrawal disbursements are covered in *Volume 5*.

Privacy of Loan Data

Schools are reminded that the details of any loan transaction may be shared only with the borrower.

Acceptable means of notification

Your school may not use an in-person or telephonic conversation as the sole means of notification of disbursement because these are not adequate and verifiable methods of providing notice. However, a school may use in-person and telephone notices in addition to those provided in writing.

Confirmation process

34 CFR 668.165(a)(6)

- ♦ procedures for canceling a Direct Loan or Perkins Loan and the time by which the borrower must notify the school that he or she wishes to cancel the loan, grant, or loan or grant disbursement.

The timing of a loan or TEACH Grant notification varies depending on whether a school obtains affirmative confirmation from a student that he or she wants a loan **or** accepts the grant. Affirmative confirmation is a process under which a school obtains written confirmation of the types and amounts of HEA program loan and TEACH Grant funds that a student wants for an award year before the school credits the student's account with those funds. See the *Application and Verification Guide* for more information on the confirmation process.

This notification must be sent:

- ♦ *if the school obtains affirmative confirmation*, no earlier than 30 days before and no later than 30 days after crediting the student's account;
- ♦ *if the school does NOT obtain affirmative confirmation*, no earlier than 30 days before and no later than 7 days after crediting the student's account.

If the borrower **or** TEACH Grant recipient wishes to cancel all or a portion of his or her loan or grant, he or she must inform the school. A school must return the loan or grant proceeds, cancel the loan or grant, or do both, provided that the school receives the loan cancellation request within the following time frames:

- ♦ *if the school obtains affirmative confirmation from the student*, by the later of the first day of a payment period or 14 days after the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan or grant; or
- ♦ *if the school does not obtain affirmative confirmation from the student*, within 30 days of the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan.

Self-assessment tool for fiscal management procedures

You can evaluate your school's fiscal management procedures by referring to the "Fiscal Management Assessment" in the Schools section of the FSA Assessments at:

ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html.

If a school receives a borrower's request for cancellation outside of the period during which the school is required to cancel the loan, grant, or loan or grant disbursement, the school has the option of canceling the loan or grant or, in the case of a loan, directing the borrower to contact the appropriate servicer. The school must inform the student or parent **in writing** of the outcome of the request. **Schools should not return loan funds on a borrower's behalf if more than 120 days have elapsed since the funds were disbursed.** (See the Handbook Appendices for information on how a school should proceed when a student dies.)

TIP

Schools should always use G5 to return funds from loans or grants cancelled within the 120-day period.

Schools should not return Direct Loan funds to ED's federal loan servicers directly. If a borrower asks the school to return Direct Loan funds more than 120 days after the disbursement date, the school should direct the borrower to the appropriate servicer for guidance on how the borrower can return the money. (An exception is when a school must return funds when a student dies.)

When acting upon a cancellation request, your school must return the funds (if received) and/or cancel the loan or grant as appropriate. A school is not responsible for returning any portion of a loan or grant that was disbursed to a student or parent directly (e.g., as a result of a credit on the student's account) before the request for cancellation was received. However, you are encouraged to take an active role in advising the borrower to return the funds already received.

Direct Loan funds that are returned within 120 days of the disbursement by the school or the borrower, for any reason, are treated as a partial or full cancellation, with the appropriate adjustment of the loan fee and interest. In addition, Direct Loan funds that are returned by a school at any time to comply with a regulatory or statutory requirement are treated as a partial or full cancellation.

Direct Loan funds that a borrower returns 120 days or more after disbursement are processed as a payment, and there is no adjustment of the loan fee or interest. For additional information on returning loan funds, see chapters 3 and 4 in this volume, and *Volume 5*, Chapter 1.

AUTHORIZATIONS

Authorizations

34 CFR 668.165(b)

Electronic disclosures

CFR 34 668.41(b) & (c)

Information Security Requirements

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program to ensure the security and confidentiality of customer information, protect against anticipated threats to the security or integrity of such information, and guard against the unauthorized access to or use of such information. (For information on the GLB Act, see *Volume 2*.)

You must obtain authorization from a student (or parent borrower) before your school can perform any of the following activities:

- ♦ use FSA funds to pay for allowable educationally related charges **other than** tuition, fees, and room and board (if the student contracts with the school);
- ♦ credit FWS wages to a student's account to pay any educationally related charges;
- ♦ disburse FWS wages by Electronic Funds Transfer (EFT) to a bank account designated by the student or parent;
- ♦ hold an FSA credit balance (see the discussion later in this chapter);
- ♦ apply FSA funds (including FWS) to prior-year charges other than for tuition, fees, room, and board.

An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered by the authorization. Unless otherwise specified, a student or parent may authorize a school to carry out the allowable activities for a specific period of time such as an academic year or for the entire period the student is enrolled, including multiple academic years.

A school may not require or coerce the student or parent to provide an authorization, and it must clearly explain to the student or parent how to cancel or modify the authorization. The school must also explain that a cancellation is not retroactive.

A student or parent may cancel or modify an authorization at any time. A cancellation or modification is not retroactive—it takes effect on the date that the school receives it from the student or parent. If a student or parent cancels an authorization to use FSA funds to pay for other allowable charges, the school may use FSA funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible but no later than 14 days after the school receives the notice. (See the discussion under *Time frame for paying FSA credit balances* later in this chapter.)

However, regardless of any authorization obtained by a school, the school must pay any remaining balance on FSA loan funds by the end of the loan period and any other remaining FSA program funds by the end of the last payment period in the award year for which they were awarded.



A school may include two or more of the items that require authorization in one statement. Each component and term in the authorization must be conspicuous to the reader, and a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

An authorization must clearly explain how the school will carry out an activity, but it does not need to detail every aspect pertaining to the activity. However, a blanket authorization that only identifies the activities to be performed is not acceptable. For instance, an authorization permitting a school to use an FSA credit balance (discussed later in this chapter) must provide detail that is sufficient to give the student or parent a general idea of what charges the credit balance would be used to pay. A blanket statement that the credit balance would cover any charges is not acceptable.

Using electronic processes for notifications and authorizations

So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically. You may also use an electronic process to provide required notices and make disclosures by directing students to a secure website that contains the required notifications and disclosures.

If you use an electronic process to provide notices, make disclosures, or direct students to a secure website, then you must notify each student individually every year. You may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an email address.

The annual individual notice must:

- ♦ identify the information required to be disclosed that year;
- ♦ provide the exact Internet or intranet address where the information can be found; and
- ♦ state that, upon request, individuals are entitled to a paper copy, and inform students how to request a paper copy.

A School Must Obtain a Student's Voluntary Consent to Participate in Electronic Transactions

Voluntary consent to participate in electronic transactions is required for all financial information provided or made available to student loan borrowers, and for all notices and authorizations to FSA recipients required under 34 CFR 668.165. (The Electronic Signatures in Global and National Commerce Act (E-Sign Act))



Power of attorney

Perkins: 34 CFR 674.16(g)

FWS: 34 CFR 675.16(a)(8)

Power of attorney in disbursing FWS and Perkins funds

A school may not obtain a student's power of attorney to authorize FWS disbursements unless the Department has granted prior approval (contact your School Participation Team). Your school must be able to demonstrate that there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student.

Similarly, a school official may not use a student's power of attorney to endorse any Perkins Loan disbursement check or to sign for any Perkins Loan advance unless the Department has granted prior approval. Approval may be granted only if:

- ♦ the student is not available to sign the promissory note, and there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student;
- ♦ the school shows that the funds cannot be directly deposited or electronically transferred;
- ♦ the power of attorney is not granted to a school official or any other official who has an interest in the loan; and
- ♦ the power of attorney meets all legal requirements under the law of the state in which the school is located, and the school retains the original document granting power of attorney in its files.

CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT

Before you awarded funds to a student, you confirmed that he or she was an eligible student and was making satisfactory academic progress (see *Volume 1*). However, before disbursing FSA funds, you must determine and document that a student remains eligible to receive them. A school must have a process (consistent with the requirements in 34 CFR 668.164(b)(3)) for determining that a student is eligible to receive a Title IV disbursement. A school must confirm the following:



- ◆ the student is enrolled in classes for the period;
- ◆ for a student otherwise eligible for a Pell grant, the scheduled disbursement will not cause the student to exceed his or her Lifetime Eligibility (see *Volume 3*);
- ◆ a student enrolled in a non-term program or nonstandard term program with terms that are not substantially equal in length has completed the previous period (credits and weeks of instruction or clock-hours and weeks of instruction);
- ◆ except for Direct Loans, if the disbursement occurs on or after the first day of classes, that the student has begun attendance in the classes on which his or her eligibility was based;
- ◆ for Direct Loans, the student is enrolled at least half time and has a valid, linked MPN;
- ◆ first-time FSA borrowers have completed entrance counseling, received the required disclosures, and completed the first 30 days of their academic program (See *Volume 3*.);
- ◆ for TEACH Grant awards, the student has
 - a) completed the relevant initial or subsequent counseling;
 - b) signed an *Agreement to Serve*; and
 - c) earned the appropriate GPA, otherwise met the performance standard through testing, or is a retiree or a current or former teacher (see *Volume 1*).

If a Borrower Dies Before Loan Funds are Disbursed



The Department does not permit disbursement of Title IV loan funds when there is no possibility of repayment. Therefore, if a student borrower or parent PLUS loan borrower dies after the school has received the loan funds but before the loan is disbursed, the school must return the full amount of the loan to the Department.

Third-party servicers responsibility for checking eligibility before disbursement

34 CFR 668.25(c)(4)

Interim disbursements to students selected for verification

A school can make an interim disbursement of certain types of FSA funds to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). If the school has any conflicting documentation or other reason to believe that it does not have a valid output document, it may not make such a disbursement. See the current version of the *Application and Verification Guide*, for more details.

Disbursements to Students on Leave of Absence

A school may disburse Pell, TEACH Grant, Iraq & Afghanistan Service Grant, FSEOG, or Perkins Loan funds to a student on a leave of absence. However, a school must not disburse Direct Loan funds to a student on a leave of absence.

Because FSA credit balance funds are funds that have already been disbursed, a school must pay an FSA credit balance to a student on a leave of absence.

Disbursement of funds received under Advance Payment

34 CFR 668.162(b)(3)

Importance of Timely Review of Pell Lifetime Eligibility Used

Electronic Announcement, August 13, 2012

TEACH Grant Counseling

A student must complete TEACH Grant initial counseling prior to receiving the first disbursement of the student's first TEACH Grant. See *Volume 3* for information about the required counseling.

Reminder**Time Frame for Submitting Disbursements**

A school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records and Direct Loan disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

The Department considers that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed on the date that the school: (a) credits those funds to a student's account in the school's general ledger or any subledger of the general ledger, or (b) pays those funds to a student directly. We consider that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed even if a school uses its own funds in advance of receiving program funds from the Department.

A school's failure to submit disbursement records within the required time frame may result in the Department rejecting all or part of the reported disbursement. In addition, such failure may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

Federal Register Volume 78, Number 40 (Thursday, February 28, 2013)

The most common change that would make a student ineligible for a Direct Loan disbursement is if the student has dropped below half-time enrollment, so it is important that the financial aid office have a system to verify the student's enrollment status at the time of disbursement. If the student has only temporarily dropped below half time enrollment, you may still make a Direct Loan disbursement after the student resumes at least half-time enrollment.

TIME FRAMES FOR PAYING FSA FUNDS***Prompt disbursement (three-day) rules***

In general, schools that are not receiving federal cash from the Department through one of the heightened cash monitoring payment methods must make disbursements as soon as administratively feasible but no later than three business days after receiving funds from the Department. The disbursements may be credited to the student's account or made directly to the student or parent, as discussed earlier.

In order to comply with the excess cash regulations (described in Chapter 1), when requesting funds with which to make FSA disbursements, schools must ensure they do not draw down more cash than they can disburse over the next three days.

Note that these time frames for disbursing to the student's account (or directly to the student or parent) are different than those for paying FSA credit balances to the student or parent. As we discuss later in this chapter, a school generally has 14 days to pay an FSA credit balance to the student or parent, unless it has written permission to hold the credit balance.

Submitting disbursement records

A school must submit Federal Pell Grant, TEACH Grant, and Direct Loan disbursement records no later than 15 days after making a disbursement or becoming aware of the need to adjust a student's disbursement.

A school's failure to submit disbursement records within the required time frame may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

Defining the Date of Disbursement (34 CFR 668.164(a))

(These rules apply to the FWS program as well.)

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must disburse an FSA credit balance to a student no later than 14 days of the date it was created or no later than 14 days after the first day of class, and you must notify a student of a loan disbursement within a time frame related to the date of that disbursement.

The date of disbursement also determines when the student becomes an FSA recipient and has the rights and responsibilities of an FSA recipient. For example, when FSA loan funds are disbursed to a recipient, the student or parent assumes responsibility for the loan and has the right to cancel the loan.

A disbursement occurs when your school credits a student's account **or** pays a student or parent directly with:

- FSA funds received from the Department; or
- School funds labeled as FSA funds in advance of receiving actual FSA funds (except as noted below).¹

When using school funds in place of FSA funds, there are two situations where the FSA disbursement is considered to have taken place on the earliest day that the student could have received FSA funds rather than the actual disbursement date.

- If a school credits a student's account with its own funds earlier than 10 days before the first day of classes of a payment period, that credit is not considered an FSA disbursement until the 10th day before the first day of classes (the earliest a school may disburse FSA funds).
- If a student borrower is subject to the 30-day disbursement delay and a school credits the student's account with its own funds before the 30 days have elapsed, this is not counted as an FSA loan disbursement until the 30th day after the beginning of the payment period (the 31st day of classes).

¹ If your school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an FSA credit (for example, an estimated Federal Pell Grant), it is not a disbursement. For example, some schools prepare billing statements or invoices showing the estimated amount of FSA funds that students are eligible to receive. These estimated amounts are not FSA disbursements.

DISBURSING FWS WAGES

FWS payments to students

34 CFR 675.16

Crediting student's account

34 CFR 668.164(d)

Noncash contribution

Your school also has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. However, you may not count forgiveness of a charge such as a parking fine or library fine against a student who is employed under FWS as part of the school's noncash contribution to the student.

Non cash payments (tuition, fees, services or equipment) must be made before the student's final payroll period of the award period. If the school pays its share for a forthcoming academic period in the form of prepaid tuition, fees, services or equipment, it must give the student—again, before the end of the student's final payroll period—a statement of the amount of the noncash contribution earned.

Your school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other similar payrolls at the school. Unless you are paying the student with noncash contributions (see sidebar), you must pay the nonfederal share to the student at the same time you pay the federal share.

FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while he or she was still in school. However, when a student has withdrawn from school and is not planning to return, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving a disbursement under the FWS Program.

For audit and program review purposes, your school must have documentation (e.g., canceled checks, bank statements) showing that students received disbursements in the amount charged to the FWS Program.

Crossover payment periods

When a payment period is in two award years (that is, when it begins before July 1 and ends on or after July 1), the student is paid for compensation earned through June 30 with funds allocated for the first award year and for compensation earned beginning July 1 with funds allocated for the following award year. (See *Volume 6* for a discussion of carrying back funds for summer employment.)

Disbursing to students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization.

Holding FWS funds on behalf of the student

With written authorization from a student, a school may hold, on behalf of the student, FWS funds that would otherwise be paid directly to the student (unless this is prohibited by the terms of a reimbursement payment method). The restrictions for such an authorization are the same as those that apply to written authorizations for disbursements to student accounts. If your school holds FWS funds on behalf of students, it must:

- ♦ identify the amount of FWS funds held for each student in a designated subsidiary ledger account;
- ♦ maintain cash in its bank account that is always at a minimum equal to the FWS funds being held for students; and
- ♦ disburse any remaining balance by the end of the school's final FWS payroll period for the award period.

METHOD OF DISBURSEMENT

There are two ways to disburse FSA funds: by crediting the student's account for allowable charges at your school or by paying the student or parent directly.

Credit to the student's account

When a school disburses FSA funds to a student by crediting a student's account, it may do so only for allowable charges.

Allowable charges include:

- ♦ current charges incurred by the student at the school for tuition and fees as defined in *Volume 3*, and room and board if the student contracts with the school (third-party or pass-through charges are not included except in the case of third-party housing, books and supplies contracted by the school);
- ♦ if you obtain the student's or parent's (as applicable) written authorization, other educationally related charges incurred by the student at the school; and
- ♦ prior-year charges not exceeding \$200.00 (see the discussion under *Paying prior-year charges* later in this chapter).

Direct disbursement to the student

You may also disburse FSA funds directly to the student or parent. Most schools choose to first credit FSA funds to the student's account at the school and then disburse the credit balance to the student or parent.

There are three ways that a school may disburse FSA funds directly to the student or parent.

- ♦ **Issuing a check or other instrument** payable to and requiring the endorsement or certification of the student or parent (a check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup).
- ♦ **Initiating an EFT** to a bank account designated by the student or parent, including transferring funds to stored-value cards and debit cards (see the discussion under *Paying FSA Credit Balances* later in this chapter).
- ♦ **Disbursing to the student in cash**, provided that your school obtains a signed receipt from the student or parent.

Self-assessment tool for disbursement procedures

You can evaluate your school's disbursement procedures by referring to the "Fiscal Management Assessment" in the Schools section of the FSA Assessments at:

ifap.ed.gov/qa/home/qaassessments/fiscalmanagement.html.

Method of disbursement

- Credit to student's account: 34 CFR 668.164(a), (b), & (d)(1)
- Direct disbursements: 34 CFR 668.164(d)
- Releasing a Pell check: 34 CFR 690.78(c)
- Cost of attendance: Section 472 of the HEA
- Prior-year charges: 34 CFR 668.164(d)(2)

Tuition and fees

Section 472 of the HEA
34 CFR 668.164(d)

Crediting Direct Loan funds to current charges first

Direct Loan funds credited to a student's account must first be used to pay for current charges.

Disbursements in programs of less than one year where grades are not awarded

Before disbursing funds to students enrolled in programs equal to or less than one year in which students do not receive grades or credits until the end of the program, your school must have a satisfactory academic progress standard as described in *Volumes 1 and 2* of the *Federal Student Aid Handbook*, and you must:

- measure a student's standing vis-a-vis satisfactory academic progress by the time the student has completed one-half of the program (one payment period). If no grades are given for the first half /payment period, a comparable assessment must be made; and

not make second disbursements of FSA funds to a student who is not making satisfactory academic progress, except that a student on probation or warning may receive a second disbursement if he or she has completed the clock hours or credit hours associated with the first period.

INSTITUTIONAL CHARGES

Institutional versus noninstitutional charges

Institutional charges generally are defined as the charges for tuition and fees, room and board, and other educational expenses that are paid to the school directly. If a fee (like a registration or technology fee) is required for all students in a program, then the fee should be considered an institutional charge. A charge does not have to appear on a student's account to be considered an institutional charge.

The following educational expenses must be considered institutional charges:

- ♦ all charges for tuition, fees, and room and board (if contracted with the school); and
- ♦ expenses for required course materials (books, kits, tools, supplies, etc.) if the student does not have a real and reasonable opportunity to purchase the required course materials from any place but the school.

Exceptions: When calculating Returns under 34 CFR 668.22 a school may exclude from the total amount of institutional costs, such as the documented cost of unreturnable equipment and documented cost of returnable equipment if not returned in good condition within 20 days of withdrawal.

Noninstitutional charges (not included in a Return calculation) include:

- ♦ charges for any required course materials that a school can document a student had a real and reasonable opportunity to purchase elsewhere (see the discussion that follows);
- ♦ charges to a student's account for group health insurance fees if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal, and
- ♦ charges to a student's account for discretionary, educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.).



Paying Overtime Charges is Prohibited

A school may not use Title IV funds to pay overtime charges for a student who fails to complete his or her academic program within the normal time frame. Section 472 of the HEA defines cost of attendance as the tuition and fees normally assessed a student carrying the academic workload required of all students in the same course of study. Overtime charges are in addition to normal tuition and fees. Since they are not charges normally assessed, they may not be included in a student's cost of attendance for Title IV purposes. (See *Volume 3*, Chapter 2 for additional information.)

Three Principles Associated With Institutional Charges

Published in a January 7, 1999, policy bulletin, these principles are applicable to determining institutional charges.

Principle 1: Most costs charged by the school are institutional charges.

The most important principle to keep in mind is that all tuition, fees, room and board, and other educationally related charges a school assesses a student are institutional charges, unless demonstrated otherwise. If you want to exclude specific charges or costs from a calculation, you must document that the charges are not institutional charges.

Principle 2: An institutional charge does not need to be assessed to all students.

A charge assessed to all students enrolled in a course or program is an institutional charge whether or not it is assessed to all students at the school. Moreover, a charge does not have to be specified in a student's enrollment agreement to be considered an institutional charge.

Principle 3: Charges on a student's account are not always school charges; school charges do not always appear on a student's account.

With the student's authorization, a school may credit a student's account with Title IV funds to pay for noninstitutional charges. If a student withdraws from the school with debits for noninstitutional charges on his or her account, the school should exclude those charges from the Return calculation.

Conversely, there may be institutional charges that do not appear on a student's account. If a school disburses Title IV funds to a student to buy required books, equipment, supplies, or materials and the student does not have a real and reasonable opportunity to purchase them from another source, those costs must be classified as institutional charges.

PAYING INSTITUTIONAL CHARGES

Paying pass-through charges

Charges Incurred at Bookstores

DCL GEN-12-21, November 28, 2012

The law allows a school to credit a student's account with FSA funds to pay for institutionally provided housing, or to pay for charges incurred at a school owned bookstore. However, it is not necessary that the school actually own the student housing or the bookstore. The school may enter into a contract with a third party to provide institutional housing and/or bookstore services.

Under a contractual agreement, for housing and books and supplies, we view the school as providing the goods and services itself. Consequently, as allowed under 34 CFR 668.164(d)(1)(iv) and (d)(2)(ii), with the student's authorization, a school may credit a student's account with Title IV, HEA funds to pay for housing and for educationally related charges incurred by the student at the bookstore.

Students must have an option

A school must give a Pell Grant-eligible student the opportunity to opt out of having purchases of books and supplies from any institutionally owned or contracted bookstore charged to the student's account.

34 CFR 668.164(i)(3)

A school may credit a student's account with Title IV, HEA funds to pay for educationally related goods and services purchased by the student at a bookstore as long as (1) the school has a written contract or other legal agreement with the entity operating the bookstore under which the student is able to charge educationally related goods and services, and (2) the school obtains the student's authorization.

Keep in mind that other FSA requirements apply to both the funds used for the housing payment and bookstore services, and to the physical location of the housing or bookstore. For instance:



- ♦ A school must include the cost of housing as an institutional charge in any Return calculation required when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment. (See *Volume 5*.)
- ♦ A student's bookstore charges must be included as institutional charges when performing a Return calculation if the student did not have a "real and reasonable opportunity" to purchase the books and supplies from any place other than at that bookstore.
- ♦ The school must include the contracted third-party housing among the locations for which it fulfills the requirements for reporting campus crime and safety information.
- ♦ If the bookstore is located on-campus, or, if the bookstore is in any off-campus building or property that is owned or controlled by the institution, the institution must include the bookstore among the locations for which it fulfills the requirements for reporting campus crime and safety information.

www2.ed.gov/admins/lead/safety/handbook.pdf

See *Volume 2* for additional information.

Campus security

34 CFR 668.41(e), 668.46, and 668.49



The third party that owns the housing or bookstore also must comply with the civil rights and privacy requirements contained in the school's Program Participation Agreement (see *Volume 2*).

Paying prior-year charges

In general, FSA funds may only be used to pay for the student's costs for the period for which the funds are provided. However, a school may use current-year funds to satisfy prior award year charges for tuition and fees, room, or board (and with permission, educationally related charges) for a total of not more than \$200.00. **A school may not pay prior-year charges in excess of \$200.00.**



FSA funds may not be used to repay a student's loan. Loan payments are not part of the cost of attendance for the period of enrollment.

The costs of education and other services a school provides a student are associated with the "year" for which the education and services are provided. **A school has discretion over how it defines a "year."**

- ♦ **If a student's aid package includes a Direct Loan, the "year" is the loan period.** In this scenario, costs for the current year are defined as charges for education and services the institution will provide during the current loan period for which the school originates a Direct Loan.
- ♦ **If the student does not have a Direct Loan, the "year" is the award year,** and costs for the current year are defined as charges for education and services the school will provide during the current award year.

Prior-year charges

34 CFR 668.164(d)(2)

DCL GEN-09-11

Prior Year

If the student's aid package does not include a Direct loan, *prior year* means **any** award year that ended prior to the start of the current award year.

If the student's aid package includes a Direct Loan, *prior year* means **any** loan period that ended prior to the start of the current loan period.

Apportioning and prorating charges

In most cases, the total charges a school assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some schools charge a student up front for the total cost of a multiyear program (for example, the student signs an enrollment agreement and is charged for the total costs of an 1,800-clock-hour program at the beginning of the program). In this case, because the charges assessed up front represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate).

Institutional charges (generally speaking, tuition and fees) allocated to each year (or portion of a year) would be based on the education and services the school provides during that period of time, in the same way as they are for schools that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current-year charges. The amount of current-year charges would then be used for determining whether the student has an FSA credit balance as described later in this chapter.

Note that this procedure for apportioning the costs over the length of the program does not affect how a school maintains or should maintain its accounting records.

Example: Apportioning Charges When a School Posts All Charges to the Student's Account During the First Payment Period and the Student Has an FSA Loan

Katrina Technical Center (KTC) is a nonprofit postsecondary institution located in Houma, Louisiana, offering a program in storm-water abatement. Hanna Galiano entered KTC's Abatement program on May 4, 2011. KTC posts the charges for the entire (1,500-hour) program at the beginning of the program.

Program Profile

Academic Year/Program	900 hours 30 weeks of instructional time
Program	1,500 hours 50 weeks of instructional time
Program Start Date	May 4, 2011
Program End Date	April 16, 2012
Program Cost	\$13,500.00
Pell Award Years Included	July 1, 2010–June 30, 2011 July 1, 2011–June 30, 2012
Payment Period 1 (450 hours)	May 4, 2011 to August 14, 2011
Payment Period 2 (450 hours)	August 17, 2011 to November 27, 2011
Payment Period 3 (300 hours)	November 30, 2011 to February 5, 2012
Payment Period 4 (300 hours)	February 8, 2012 to April 16, 2012
First loan period (900 hours)	May 4, 2011 to November 27, 2012
Second loan period (600 hours)	November 30, 2011 to April 16, 2012

Hanna's Federal Student Aid Information

Hanna was eligible to receive the following federal student aid during her program.

2010–2011 Pell Grant Scheduled Award	\$4,800.00
2011–2012 Pell Grant Scheduled Award	\$4,800.00
Subsidized Direct Loan for First Loan Period	\$3,500.00
Subsidized Direct Loan for Second Loan Period	\$2,334.00
Unsubsidized Direct Loan for Second Loan Period	\$1,000.00

When a school charges for an entire program at the start of the course (up front), a school may apportion or otherwise assign the total charges for a multiyear program to determine the amount of those charges applicable to each year (loan period or award year as appropriate). **Note that a school must use the same basis to apportion the charges for all students in a program.** For example, KTC could:

- apportion the charges in proportion to the number of clock hours in each loan period (900 hours/\$8,100.00 in the first loan period and 600 hours/\$5,400.00 in the second loan period; or
- increase the charges the school assigned to the first loan period and decrease the charges in the second loan period because the school retained charges for books and materials in the first period; or

Apportioning charges example continued

- apportion the \$13,500 equally (\$6,750) over each of the two loan periods (four payment periods).

KTC chose to apportion the charges in proportion to the number of clock-hours in each loan period.

Student's Apportioned Charges

First Payment Period (450 hours)	\$ 4,050
Second Payment Period (450 hours)	\$ 4,050
Third Payment Period (300 hours)	\$ 2,700
Fourth Payment Period (300 hours)	\$ 2,700

On May 4, 2010, the school credited Hanna's account with \$4,150.00 in FSA funds—\$2,400 in 2009–2010 Pell Grant funds and \$1,750.00 in Direct Loan funds. When applied against the \$4,050.00 in school charges for the first payment period, the FSA funds created an FSA credit balance of \$100.00 (\$4,150.00 – \$4,050.00) that the school electronically transferred to the bank account that Hanna had previously specified be used for that purpose.

On August 17, 2010, the school credited Hanna's account with \$4,150.00 in FSA funds—\$2,400.00 in 2010–2011 Pell funds and \$1,750.00 in Direct Loan funds. When applied against the \$4,050.00 in school charges for the second payment period, the FSA funds created an FSA credit balance of \$100.00 (\$4,150.00 – \$4,050.00) that the school electronically transferred to Hanna's specified bank account.

On November 30, 2010, the school credited Hanna's account with \$2,767.00 in FSA funds—\$1,600.00 in 2010–2011 Pell funds and \$1,167.00 in Direct Loan funds. When applied against the \$2,700.00 in school charges for the third payment period, the FSA funds created an FSA credit balance of \$67.00 (\$2,767.00 – \$2,700.00) that the school electronically transferred to Hanna's specified bank account.

Hanna began the fourth and final payment period on February 8, 2012, and the aid officer posted \$1,167.00 in Direct Loan funds to Hanna's account. When the aid officer looked at Hanna's Pell eligibility, she found that Hanna had already used \$4,000.00 of her \$4,800.00 scheduled award, so Hanna was eligible for only \$800.00 in Pell funds and a total of \$1,967.00 in FSA funds (\$1,167.00 + \$800.00).

When the \$1,967.00 in FSA funds was applied against the \$2,700.00 in school charges for the fourth payment period, an unpaid balance of \$733.00 (\$2,700.00 – \$1,967.00) remained. Hanna told the aid officer that she was able to meet her living expenses through her part-time job, but needed additional help to pay her tuition. She also said that she could use a little help with other school-related bills.

After discussing the matter, they arrived at the decision that Hanna would use an Unsubsidized Direct Loan in the amount of \$1,000.00 to cover the balance of the tuition and the aid officer would transfer any credit balance remaining after her tuition was paid to the bank account Hanna had previously identified for that purpose.

Hannah's tuition and fees were now paid in full.

Hanna graduated from KTC and is working for the Army Corps of Engineers helping ensure that the levees in New Orleans never fail again.

Time frame for paying FSA credit balances



An FSA credit balance occurs whenever your school credits FSA program funds to a student's account and the total amount of those FSA funds exceeds the student's allowable charges. Please see *Volume 5* for a discussion of credit balances when a student withdraws.

If FSA disbursements to the student's account at the school create an FSA credit balance, you must pay the credit balance directly to the student or parent as soon as possible but no later than 14 days after:

- ♦ the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or
- ♦ the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize your school (in writing or through **StudentLoans.gov**) to transfer the proceeds of a PLUS Loan credit balance directly to the student for whom the loan is made (for example, to a bank account in the student's name). The Department does not specify how a school must determine which FSA funds create an FSA credit balance.

Credit balances

34 CFR 668.164(e)

Direct payments to students

34 CFR 668.164(c)

School responsibility to pay credit balance in time frame

34 CFR 668.164(e)(1)&(2)

School responsibility to pay credit balance by the end of the last payment period

34 CFR 668.165(b)(5)(iii)

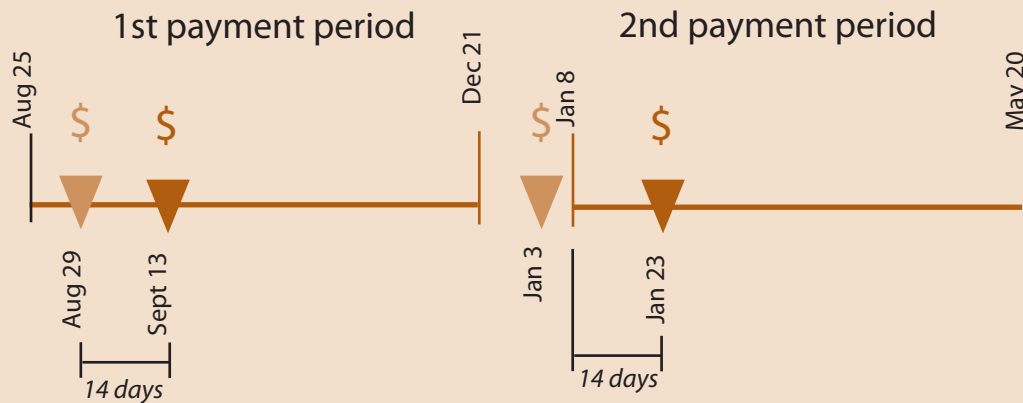


A school may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time frames.



Notwithstanding any authorization obtained by the school, the school must provide the student with any remaining FSA credit balance resulting from FSA loan funds by the end of the loan period and any other FSA program credit balances by the end of the last payment period in the award year for which the funds were awarded.

Example — 14-Day Time Frame for Paying Credit Balances



In the first payment period above, the school disburses FSA funds to incoming students after the students have started classes, so it has 14 days from that date to pay the credit balance to the student (or parent, in the case of PLUS).

In the second payment period, the school disburses FSA funds before classes start, so the school has 14 days *from the beginning of classes* to pay the credit balance.

FSA credit balances example

An FSA credit balance occurs only if the total amount of FSA program funds credited to the student's account exceeds allowable charges.

For example, Ms. Inu Nagar enrolls at Eaglewood Technical Institute as a computer student, and her total allowable charges for the fall term amount to \$1,500. ETI credits \$2,000 to her account, **comprised of** \$1,000 in FSEOG, \$500 in private scholarship funds, and \$500 in Pell Grant funds.

Although there is an excess of \$500 on the account, this does not constitute an FSA credit balance because the total amount of FSA funds (\$1,500) credited to the student's account does not by itself exceed the amount of allowable charges (\$1,500).

If, in this example, ETI credited \$600 of Pell Grant funds, rather than \$500, an FSA credit balance of \$100 would be created because the total FSA funds credited to the account (\$1,600) would exceed the allowable charges (\$1,500). The order in which these funds were credited does not matter.

PAYING FSA CREDIT BALANCES

Paying FSA credit balances by issuing a check

A school may pay a credit balance to a student by issuing a check payable to and requiring the endorsement of the student or parent. A school is considered to have issued the check on the date that it:

- ♦ mails the check to the student or parent; or
- ♦ notifies the student that the check is available for immediate pickup and provides the specific location.

A school that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day time frame. A school can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. A school that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the school's process complies with the rest of the regulation. That is, **the school must be able to give the student a check when the student comes to the office within the 14-day time frame.**

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored-value card), and not be told that a check will be mailed to him or her.

A school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.

Paying FSA credit balances by initiating an EFT

A school may pay a credit balance by initiating an EFT to a bank account designated by the student or parent. Moreover, a school may establish a policy requiring its students to provide information about an existing bank account or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of FSA funds to students. Consequently, **if a student does not comply with the school's policy, the school must nevertheless disburse the funds to the student either by dispensing cash, for which the school obtains a signed receipt, or issuing a check. A school must disburse the credit balance within the regulatory time frame.**

Refunds vs. paying credit balances

FSA regulations refer to the amount of aid that exceeds the allowable charges as a credit balance. School administrators sometimes refer to this as a refund; however, it is not the same thing as a refund under the school's refund policy or a post-withdrawal disbursement given to a student under the Return of Title IV Funds rules.

Credit balances under \$1.00

A school is not required to pay a credit balance that is less than \$1.00.

Paying credit balance by check

34 CFR 668.164(c)(1)(i)&(ii)

Delivery of FSA Funds Must Be Free



Schools are prohibited from charging students a fee for delivering FSA funds. If a school delivers FSA funds to students by crediting funds to a school-issued debit or smart card, the school may not charge students a fee for making withdrawals of FSA funds from that card. However, the school may charge for a replacement card.

Paying credit balance by EFT

34 CFR 668.164(c)(1)(iii), (c)(2) & (c)(3)

Bank Account

Bank Account means a Federal Deposit Insurance Corporation (FDIC) insured account or a National Credit Union Share Insurance Fund (NCUSIF) account. This account may be a checking, savings, or similar account that underlies a stored-value card or other transaction device.



Standards for School-Required Bank Accounts (34 CFR 668.164(c)(3))

In cases where a school opens a bank account on behalf of a student or parent, establishes a process the student or parent must follow to open a bank account, or similarly assists the student or parent in opening a bank account, the school must:

- obtain in writing affirmative consent from the student or parent to open that account. (If a school fails to obtain a student's consent, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations and at no cost to the student.);
- inform the student or parent of the terms and conditions associated with accepting and using the account before the account is opened;
- not make any claims against the funds in the account without the written permission of the student or parent, except for correcting an error in transferring the funds in accordance with banking protocols;
- ensure that the student or parent does not incur any cost in opening the account or initially receiving any type of debit card, stored-value card, other type of automated teller machine (ATM) card, or similar transaction device that is used to access the funds in that account;
- ensure that the student has convenient access to a branch office of the bank or ATMs of the bank in which the account was opened (or ATMs of another bank), so that the student does not incur any cost in making cash withdrawals from that office or ATMs.

This branch office or these ATMs must be located on the institution's campus, in institutionally-owned or operated facilities, or consistent with the meaning of the term "public property" immediately adjacent to and accessible from the campus.

- ensure that the debit, stored-value or ATM card, or other device can be convertible to cash and can be widely used (e.g., the institution may not limit the use of the card or device to particular vendors); and
- not market or portray the account, card, or device as a credit card or credit instrument, or subsequently convert the account, card, or device to a credit card or credit instrument.


When a school uses third-party servicers to disburse FSA funds


In response to current trends, banks and financial service companies are now offering services that include:


- ♦ obtaining a student's authorization to perform electronic transfers;
- ♦ transferring Title IV funds electronically to a student's bank account;
- ♦ opening a bank account for the student; and
- ♦ issuing debit cards in conjunction with a participating bank.

Companies that contract with schools to provide these types of services in some instances become third-party servicers.

So long as a school cannot recall or receive a payment from a student or parent account, the Department considers the electronic transfer of funds to a bank account that a servicer opens on behalf of a student to be the equivalent of a school's transfer of funds to a student's account and the equivalent of making a direct payment to a student.

 A school that enters into a contract with a servicer to provide debit, demand, or smart cards through which FSA credit balances are paid to students must have a system to ensure compliance with all regulatory time frames, including students having access to any credit balance within the 14 days and to any FWS wages at least once per month.

 If the school offers a debit card, stored-value card, or ATM card, or a similar transaction device through its servicer or its servicer's financial institution, the school must inform its students of the terms and conditions associated with the card.

 The school must inform the student before the account associated with the card is opened of the terms and conditions of the card or other instrument, including any fees and other costs associated with the account. This information should include whether all or some of the fees incurred per month by the student will be refunded back to the student's account. A school, its third-party servicer, or the servicer's financial institution may not charge a fee for delivering Title IV, HEA funds, nor may they charge a fee for "lack of documentation" levied against a student who fails to provide required documentation to open an account at the school's or servicer's financial institution.

Schools also should mention whether cards issued through the school's contracted ATM are part of a surcharge-free network, indicate the name of the network, and indicate the approximate number of available ATMs in that network both nationally and locally. Schools should also disclose how many surcharge-free ATMs are on their campus, their locations, the hours that they are accessible to patrons, and, if available, a hyperlink to an ATM locator for their affiliated networks.



See DC GEN-15-01 for a definition of a third-party servicer, and additional information about using them. See DCL GEN-12-08 for more information about using third-party servicers to disburse funds. Also see *Volume 2*.

Schools must inform students

34 CFR 668.164(c)(3)(ii)



We encourage schools to disclose annually a breakdown of the average annual costs incurred by their students for using the debit cards activated via any third-party servicer agreement.

**Number of ATMs Required**

Although the regulations provide that a school must ensure that students have convenient access to ATMs or a branch office of the bank in which the account was opened, the Department has not provided specific guidelines for determining the minimum number of a servicer's ATMs that should be available to its student population.

The Department may ask the school to show how it determined the number of surcharge-free ATMs that are located on the institution's campus, in institutionally owned or operated facilities, or, consistent with the meaning of the term "public property" immediately adjacent to and accessible from the campus.

We note that the intent of the regulations is to ensure that students can make unlimited withdrawals from their on-campus ATMs without incurring a fee.

34 CFR 668.164 (c) (3)(v)
34 CFR 668.46(a)

**Third-party Servicer Agreements**

A third-party servicer is an entity that contracts with a school to administer any aspect of its FSA programs, including managing the school's Perkins Loan collections. Thus, if a school contracts with a company to perform activities that are the school's responsibilities under the FSA regulations, the company is a third-party servicer.

The agreement between the school and servicer must be in the form of a written contract that may or may not require compensation to the third-party servicer. The contract between the institution and the third-party servicer must provide that the third-party servicer agrees to:

- Comply with all the Title IV provisions (this includes those that refer solely to institutions as well as those that explicitly reference third-party servicers);
- Be jointly and severally liable with the institution for any violation by the third-party servicer of any Title IV, HEA provision;
- Use any Title IV funds (and any interest or earnings on them) solely for the purposes specified in and in accordance with the applicable program regulations;
- Refer any reasonable suspicion of fraudulent or criminal conduct in the Title IV programs by the institution or by an applicant or student to the Department's Inspector General;
- Return to the institution all Title IV, HEA program funds and records related to the servicer's administration in the Title IV, HEA programs if the contract is terminated, if the servicer ceases to perform any functions prescribed under the contract, or if the servicer files for bankruptcy;
- Annually submit a compliance audit as provided at 34 CFR 668.23. For a servicer that contracts with several participating institutions, a single compliance audit can be performed that covers its administrative services for all those institutions. Additional information regarding these requirements can be found at the Department's Inspector General's website at:

www2.ed.gov/about/offices/list/oig/nonfed/sfa.html

34 CFR 668.25(c)
34 CFR 668.23(a)(3) & (c)
DCL GEN-12-08
34 CFR 99.31(a)(1)(i)(B)

School-issued stored-value cards



When a school pays an FSA credit balance to a student by making those funds available through a **school-issued stored-value card over which the school exercises control**, the school is, in effect, holding a student's FSA credit balance. Therefore, **all of the conditions on holding credit balances apply**.



If a student withdraws his or her authorization for the school to hold the credit balance in a school-issued stored-value card, **the school must deliver any remaining credit balance within 14 days**.



If a student withdraws from school and any of the FSA credit balance in his or her school-issued stored-value card is unclaimed, the school must return to the Department any unclaimed funds within the time frames specified earlier in this volume under *Time frame for returning unclaimed FSA credit balances*.

Requirements for Stored-Value and Prepaid Debit Cards

(DCL GEN 05-16 as modified by 34 CFR 668.164(c)(1)(iii)&(iv), (c)(2)&(c)(3))

A stored-value card is a prepaid debit card that can be used to withdraw cash from an automated teller machine (ATM) or to purchase goods from a merchant. We distinguish a stored-value card from a traditional debit card in this discussion by defining a stored-value card as not being linked to a checking or savings account.

Typically, a school enters into an agreement with a bank under which the bank issues stored-value cards directly to students identified by the school. In a payroll or credit balance transaction, the school electronically transfers funds to the bank on behalf of a student, and the bank makes those funds available to the student by increasing the value of the card. Since the funds are transferred from the school's account to the bank, so long as the school cannot recall those funds to pay other charges for the student without the student's written permission, the transaction would be equivalent to paying the funds directly to the student.

Under the following conditions, a school may use stored-value cards as a way to make direct payments to students (such as credit balances and FWS wages) by following these 10 rules.

1. A school must obtain a student's authorization to use a stored-value card for paying FWS wages.
2. The value of the card must be convertible to cash (e.g., a student must be able to use it at an ATM to make a cash withdrawal). In some cases, the cards are branded such as with the VISA or MasterCard logo, so the card may also be used to buy goods and services. We would not expect a school to limit the use of the card to specific vendors.
3. A student must not incur any fees for using the card to withdraw Title IV funds from ATMs of the issuing bank or credit union, including for failure to maintain a minimum balance. So long as ATMs from the issuing bank are conveniently located, a student may be charged a reasonable fee if the student chooses to use an ATM that is not associated with the issuing bank.
4. A student should not be charged by either the school or the affiliated bank for issuing a stored-value card. However, in the case of a lost or stolen card, a student may be charged a reasonable fee for a replacement card.
5. In order to minimize any risks with disbursing funds to a stored-value card account set up for a student, the account at the bank or credit union must be Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) insured. This means that there has to be an individual account for each student that is FDIC or NCUSIF insured.
6. In order for the disbursements to the stored-value card to be treated as payments made to a student, a school cannot make any claims against the funds on the card without the written permission of the student, except to correct an error in transferring the funds to the bank under existing banking rules.
7. Since the stored-value card is being set up to disburse federal student aid funds to a student, the account cannot be marketed or portrayed as a credit card account and cannot be structured to be converted into a credit card at any time after it is issued.

A bank may wish to use its relationship with a student to offer other banking services such as checking accounts, savings accounts, or credit cards, but those should not link to the stored-value card account.
8. Prior to the card's activation, a student must be informed of all terms and conditions associated with accepting and using the card.
9. A school must ensure that its stored-value card process meets all regulatory time frames. (For example, a student must have access via the card to any credit balance within the 14-day time frames in 34 CFR 668.164, or to any FWS wages at least once per month.)¹
10. A student's access to the funds on the stored-value card should not be conditioned upon the student's continued enrollment, academic status, or financial standing with the school.

1. If a school fails to obtain or the student withdraws his or her authorization, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations and at no cost to the student.

Special provisions for books and supplies

In order to academically succeed in a program, a student must be able to purchase books and supplies at the beginning of the academic period. Therefore, by the seventh day of a payment period, a school must provide a way for a student who is eligible for a Federal Pell Grant to obtain or purchase the books and supplies required for the payment period if:

- ♦ ten days before the beginning of the payment period, the school could have disbursed FSA funds to the student; and
- ♦ disbursement of those funds would have created an FSA credit balance.

A school must consider all the FSA funds a student is eligible to receive at the time it makes the determination, but the school need not consider aid from non-FSA sources.

A school that includes the costs of books and supplies in the tuition charged and provides all of those materials to the student at the start of his or her classes meets the requirements of these regulations.

The amount a school must provide is the lesser of the presumed credit balance or the amount determined by the school that the student needs to obtain the books and supplies. In determining the required amount, a school may use the actual costs of books and supplies or the allowance for those materials used in estimating the student's cost of attendance for the period.

A school's policy must allow a student to decline to participate in the process the school provides for the student to obtain or purchase books and supplies.

If a school uses a bank-issued stored-value or prepaid debit card that is supported by a federally insured bank account to deliver funds for books and supplies, a student must have access to the funds via the card by the seventh day of his or her payment period. If a bank delays issuing a stored-value or prepaid debit card to the student because it must resolve conflicting identity data under federal law, the Department will not hold the institution accountable as long as the institution exercises reasonable care and diligence in providing in a timely manner any identity information about the student to the bank. Likewise, the school is not responsible if the student provides inaccurate information or delays in responding to a request from the bank to resolve any discrepancies.

Provisions for books and supplies

34 CFR 668.164(i)

Authorization not required

If a Pell-eligible student uses the process provided by the school to obtain books or supplies, the student is considered to have authorized the use of the FSA funds, and no written authorization is required.

School options

A school has the flexibility to choose the method or methods to satisfy this provision based on its administrative needs and constraints or an evaluation of the costs and benefits of one or more method. For example, the school may issue a bookstore voucher, make a cash disbursement, issue a stored-value card, or otherwise extend credit to students to make needed purchases.

Schools may apply credit balances early to all students

Although the requirement is about a school providing a way for a student who is eligible for a Federal Pell Grant to obtain books and supplies, a school is not prevented from making credit balance funds available early in the payment period to other students.

Effect of Verification

To be eligible to receive the disbursement for books and supplies, a student must meet all the student eligibility requirements before the start of the student's payment period.

A student who has not completed the verification process, has an unresolved "C" code on the SAR and ISIR, or has unresolved conflicting information is not covered by the special provisions for books and supplies if those issues have not been resolved at least 10 days before the start of the student's payment period.

30-day Delay Requirement

If the 30-day delayed disbursement provisions for Direct Loans apply to a student, a school should not consider the amount of any loan disbursement in determining the credit balance because the school may not disburse that loan 10 days before the start of that student's payment period.

Taking Attendance

A school may take attendance or use an equivalent method to determine if a student is attending class, but unless the school determines that the student is not attending class, by the seventh day of the payment period, that student must be able to obtain books and supplies.

When a Student Withdraws

The requirement to provide a way for students to obtain their books and supplies does not change the treatment of FSA funds when a student withdraws as discussed in *Volume 5*.

When a Student Fails to Begin Attendance

The requirement to provide a way for students to obtain their books and supplies does not change the treatment of FSA funds when a student fails to begin attendance as discussed earlier in this chapter.

Under a consortium agreement between two eligible schools, if a student is enrolled in a course at the host school and classes start before the payment period begins at the home school that is paying the FSA funds, the regulations require that the student obtain the books and supplies by the seventh day of the start of the payment period of the home school. If the host school is paying the FSA funds, the student must be able to obtain the books and supplies by the seventh day of the start of the payment period of the host school.

A student may decline to participate (opt out) in the way a school provides for obtaining books and supplies. For instance, if a school provides a bookstore voucher, the student may opt out by not using the voucher. If the school provides the funds using a stored-value or prepaid debit card, the school must have a procedure through which the student may opt out. For example, a school may require a student to notify the school by a certain date so that the school does not unnecessarily issue a check to the student or transfer funds to the student's bank account. If a student opts out, the school may, but is not required to, offer the student another way to purchase books and supplies as long as it does not otherwise delay providing funds to the student as a credit balance.

A school is required to provide, in its financial aid information and its notifications provided to students receiving FSA funds, information on the way the school provides for Federal Pell Grant eligible students to obtain or purchase required books and supplies by the seventh day of a payment period under certain conditions and how the student may opt out. The information must indicate whether the school will enter a charge on the student's account at the school for books and supplies or pay funds to the student directly. Also, during the aid counseling process, the school must explain to a student who qualifies for the funds advanced to purchase books and supplies how the method is handled at the school and how a student may opt out.

Time frame for returning an unclaimed Title IV credit balance



If a school attempts to disburse the credit balance by check and the check is not cashed, the school must return the funds to the Department no later than 240 days after the date the school issued the check.

If a check is returned to a school or an EFT is rejected, the school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected. When a check is returned or EFT is rejected and the school does not make another attempt to disburse the funds, the funds must be returned before the end of the initial 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check. All unclaimed credit balances must be returned. There is no *de minimis* amount.

Book vouchers and institutional charges in the return of Title IV funds calculations



Remember, if a book voucher issued by a school cannot be used to purchase course materials from a **convenient unaffiliated source**, the student does not have a **real and reasonable opportunity** to purchase his or her course materials elsewhere.

In that case, the school must include the cost of books and materials purchased with the voucher as institutional charges in Step 5, Part L of any Return of Title IV funds calculation.

HOLDING FSA CREDIT BALANCES

A school is permitted to hold credit balances if it obtains a voluntary authorization from the student (or parent, in the case of PLUS). If your school has the authorization to hold the credit balance, it must identify the amount of funds that it holds for the student or parent in a subsidiary ledger account designated for that purpose. Your school also must maintain, at all times, cash in its bank account at least equal to the amount that it holds for students. The school is permitted to retain any interest earned on the student's credit balance funds.

Because FSA funds are awarded to students to pay current year charges, notwithstanding any authorization from the student or parent, you must pay:

- ♦ any remaining balance on FSA loan funds by the end of the loan period, and
- ♦ any other remaining FSA program funds by the end of the last payment period in the award year for which they were awarded.

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. The FSA regulations do not set specific rules for determining which funds created a credit balance. However, we encourage schools to return FSA funds to loan programs first to reduce the borrower's loan balance.

Authorization to hold an FSA credit balance



All elements of an authorization to hold an FSA credit balance must be conspicuous. An authorization must include the following elements:

- ♦ An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered.
- ♦ An authorization must clearly provide the student or parent with the information he or she needs to make an informed decision.
- ♦ The student or parent must be informed that he or she may refuse to authorize any individual item, that he or she may cancel such authorization at any time, and that a cancellation is not retroactive.
- ♦ A credit-balance authorization must provide detail that is sufficient to give the student or parent an idea of how the credit balance will be used.

For detailed information to hold a credit balance, see the discussion on that topic under *Authorizations* earlier in this chapter and the sample authorization on the next page.

The Department may prohibit holding credit balances

If the Department has placed a school on reimbursement or determines that the school has failed to meet financial responsibility standards, it may choose to prohibit the school from holding a credit balance for any student.

Sample Authorization to Hold an FSA Credit Balance

TRISKAIDEKA MARLEY UNIVERSITY AUTHORIZATION TO HOLD A FEDERAL STUDENT AID CREDIT BALANCE

Through this document, you will tell Triskaideka Marley University (TKMU/the University) how you would like the school to manage the Federal Student Aid (FSA) credit balance on your student account.

An FSA credit balance is created when the total of all FSA funds credited to a student's account exceeds the total of tuition, fees, room, board, and other eligible educational charges on a student's account. Your FSA credit balance of \$2,500 was created by funds from the Federal Pell Grant and Federal Direct Loan Programs.

Unless a student or parent (in the case of a Parent PLUS loan) authorizes a school to hold a credit balance, the credit balance must be paid to the student or parent as soon as possible but no later than 14 calendar days after the balance is created (or 14 calendar days after the first day of class if the credit balance was created before the first day of class).

This form, if signed by you, authorizes TKMU to retain an FSA credit balance and pay it to you (the student or parent, as applicable) in accordance with *TKMU'S Procedure for Paying Federal Student Aid Credit Balances*. TKMU will pay credit balances by depositing the funds in a savings or checking account designated by the student or parent or transferring the funds to a "stored-value" or "debit card" designated by the student or parent.

A student or parent has the right to withhold agreement from all or part of this authorization. If you elect not to authorize the University to hold your FSA credit balance, the funds will be paid to you (the student or parent as applicable) within the 14-day period noted above. Note that if you elect not to sign this form or if you later cancel your authorization, you will be required to pay any outstanding charges to the University.

This authorization will remain in effect for each subsequent payment period unless you withdraw it. However, in no case will TKMU hold an FSA credit balance of loan funds beyond the end of the loan period, nor an FSA credit balance of other funds beyond the end of the last payment period in the award year for which the funds were awarded.

This authorization may be withdrawn at any time by providing a written request to the following address:

**TKMU Financial Aid Office
Director of Financial Aid
1300 Ted Drive, Suite 1313
Pixie, CA 13013**

If you withdraw your authorization, the University will deliver any remaining credit balance to you within 14 days. (Note that your cancellation is not retroactive.)

Authorization

I voluntarily authorize the University to hold and manage my FSA credit balance as described above, and I acknowledge that interest will not be earned on these balances.

Signature

Date

LATE DISBURSEMENTS

Generally, an otherwise eligible student or parent becomes ineligible to receive FSA funds on the date that the student:

- ♦ for the Direct Loan program, is no longer enrolled at least half time; or
- ♦ for the FSA Grant, or the Perkins Loan programs, the student is no longer enrolled at the school for the *award year*.

However, if certain conditions are met, students must be considered for a disbursement after the date they became ineligible. These disbursements are called “late disbursements.”

Conditions for a late disbursement

A student must be considered for a late disbursement if the Department processed a SAR/ISIR with an official EFC before the student became ineligible. Therefore, a school must review its records to see if a student who did not receive a disbursement of FSA funds before becoming ineligible is eligible for a late disbursement. (Check the “processed date” as described in the sidebar.) In addition, for a Direct Loan, the loan must be originated prior to the date the student became ineligible (see sidebar). For an FSEOG or a Federal Perkins Loan, the school must have made the award to the student prior to the date the student became ineligible. For a TEACH Grant, the school must have originated the award.

If a school receives a valid SAR/ISIR for a student who is no longer enrolled, before performing a Return calculation, the school must recalculate the FSA grant eligibility based on the student’s enrollment status on the date the student ceased to be enrolled.

Late disbursements that must be made vs. late disbursements that may be made

If a student who qualifies for a late disbursement completes the payment period or period of enrollment, or withdraws during the payment period or period of enrollment, a school **must** make or offer, as appropriate, the late disbursement. A late disbursement for a student who has withdrawn during the payment period or period of enrollment is called a post-withdrawal disbursement (see *Volume 5*).

If a student did not withdraw or fail to complete the payment period or period of enrollment but ceased to be enrolled as at least a half-time student, a school **may** make a late disbursement of a Direct Loan. So long as a school has previously confirmed that a student started the loan period enrolled at least half time, a school is not required to reconfirm a student’s attendance before making a late disbursement of an FSA loan.

Late disbursements

34 CFR 668.164(g)

Pell and Iraq & Afghanistan Service Grant disbursements

If a school receives a valid SAR or ISIR within the applicable deadlines, it must disburse the student’s Pell or Iraq & Afghanistan Service Grant.

34 CFR 690.61(a)

Date of Origination

TIP

The regulations define the date of loan origination as “the date a school creates the electronic loan origination record.”

If the school created an electronic loan origination record in its system before the date the student became ineligible, and the school can document the creation of that record, the school satisfies the date of origination component required for making a late disbursement (assuming that all other late disbursement requirements are met).

34 CFR 685.301(a)(6).

Processed Date

For purposes of determining eligibility for a late disbursement, use the processing date on the SAR/ISIR. For an ISIR, use the field labeled **Processed Date**. For a SAR, use the date above the EFC on the first page. For a SAR Acknowledgment, use the date labeled “transaction process date” in the School Use box.

Obtaining SAR/ISIR With Earlier Process Date

In some cases, a school may have a SAR/ISIR with an official EFC processed while the student was enrolled but before the student listed the school on the FAFSA or ISIR. Subsequently, the school may have received a SAR/ISIR for the student with a processed date after the student ceased to be eligible. In this case, you need to obtain a copy of the earlier SAR/ISIR to document eligibility for the late disbursement.

Late Disbursements May Be Declined

Though a school must make or offer late disbursements, a student or parent is never required to accept it. For example, a student may decline a late disbursement of a loan to avoid taking on debt.

A student who withdraws and subsequently signs a promissory note in time for the school to include the loan funds in the Return of Title IV Aid calculation may receive a late (post-withdrawal) disbursement of the applicable amount of his or her loan funds (see *Volume 5* for more information). In addition, a student who loses eligibility for a reason other than his or her withdrawal and subsequently signs a promissory note may receive a late disbursement of the applicable amount of his or her loan funds.

Limitations on making a late disbursement

The regulations prohibit a school from making a late disbursement in certain situations, **even if a student otherwise meets the conditions for a late disbursement. A school is prohibited from making:**



- ♦ a late second or subsequent disbursement of Direct Loan funds unless the student has graduated or successfully completed the loan period;
- ♦ a late disbursement of Direct Loan funds to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study, unless the school meets the requirements for a waiver based on low default rates (see *Volume 2*); and
- ♦ a late disbursement of Title IV funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by the Department.

In addition, a school may not make a late disbursement later than 180 days after the date the student becomes ineligible.

Post-withdrawal disbursements

A post-withdrawal disbursement, a type of late disbursement, is FSA funds that were not disbursed before a student withdrew but which the student has earned based on a Return of Title IV Funds calculation. The conditions and limitations for a post-withdrawal disbursement are the same as for all other late disbursements. However, there are additional requirements for late disbursements made as a post-withdrawal disbursements. A school must follow the rules for paying and/or offering a post-withdrawal disbursement in regulations governing the Return of Title IV Funds (see *Volume 5*).

34 CFR 668.22(a)(5)

Flexibility in Contacting Students

In order to avoid having to contact a student multiple times, a school may use one contact to:

- counsel a borrower about his or her loan repayment obligations;
- obtain permission to credit loan funds to a student's account to cover unpaid institutional charges;
- obtain permission to make a late disbursement of grant or loan funds for other than institutional charges;
- obtain permission to make a late disbursement of grant or loan funds directly to a student; and
- confirm that a student wishes the school to receive, as a direct disbursement, any grant or loan funds the student is due as a late disbursement.

A student's response to an offer of FSA funds from late disbursement does not have to be in writing. However, a school must document the student's response.

Paying a late disbursement

If a school chooses to make a late disbursement of a Direct Loan to a student who ceases to be enrolled as at least a half-time student, the school determines the amount of the late disbursement of the Direct Loan it will offer the student by determining the educational costs the student incurred for the period of instruction during which the student was enrolled at least half time.



A school must contact a student prior to making any late disbursement of FSA loan funds and explain to the student his or her obligation to repay the loan funds if they are disbursed. The information provided in this notification must include the information necessary for the student or parent to make an informed decision about whether the student or parent would like to accept any disbursement of the loan funds. In addition, the school must confirm that the loan funds are still needed by the student and that the student wishes the school to make the disbursement.

Your school may credit a student's account with a late disbursement of FSA grant funds without the student's permission for any current allowable charges. A school must obtain a student's authorization to credit a student's account with FSA grant funds for charges other than current charges.

If grant funds remain to be disbursed from a late disbursement after the outstanding charges on the student's account have been satisfied, the school must pay the grant funds directly to the student within 14 days.



If a student with an FSA credit balance withdraws before the funds are disbursed, other limitations apply. See *Volume 5* for an explanation of the treatment of Title IV credit balances when a student withdraws.

Extended Processing and late disbursements of Pell for a closed year

If COD has ended processing for a Pell award year, a school can still make adjustments through the COD website at <https://cod.ed.gov>.

Authorized school users must log on to the website, select the "School" menu and then select "Request Post Deadline/Extended Processing" on the left side. Users then:

- select the correct award year and program for the request;
- choose "Institutional Problem" from the drop down menu as the reason code;
- provide an explanation for the request; and
- select "Submit."

In the information a school provides to the students when the school informs them that they are due a late disbursement, the school may include information about the advantages of keeping loan debt to a minimum.

Extended DL Processing

Direct Loan processing for an award year generally remains open in COD for 13 months following the end of the award year (until July 31 of the year following the end of the award year). A school should be able to submit data via batch or web processing through that time unless it has already confirmed closeout for the impacted award year. If a school finds the year is closed in COD before the 13-month period is over, the school should contact COD School Relations for assistance in re-opening the award year.

Once the 13-month period is over and COD has closed the year, a school may request Extended Processing through the COD website at <https://cod.ed.gov>.

Toward the end of each award year the Department publishes an Electronic Announcement containing information on the closeout deadline and instructions on how schools can request Extended Processing for Direct Loans after the closeout deadline.

Conditions and Limitations on Late Disbursements

These Conditions Must Be Met Before a Student Loses Eligibility in Order for the Student to Receive a Late Disbursement (34 CFR 668.164(g)(2))

Program		
Pell Grant ¹	For all programs, the Department processed a SAR/ISIR with an official EFC.	No additional requirements.
FSEOG		Student is awarded a grant.
Direct Loans		A loan record is originated. ²
Perkins Loans		Student is awarded the loan.
TEACH Grants		The grant is originated.

These Additional Limitations Must Be Satisfied Before a School May Make a Late Disbursement (34 CFR 668.164(g)(4))³

Program	
Pell Grant ¹	For all Title IV programs, a school received a valid SAR/ISIR by the date established by the Department.
FSEOG	No additional limitations.
Direct Loans	<ol style="list-style-type: none"> 1 For a first-time, first-year borrower, student completed 30 days of the program. (Subject to waivers discussed in <i>Volume 3</i>.) 2 For a second disbursement, student graduated or completed the period for which the loan was intended.
Perkins Loans	No additional limitations.
TEACH Grants	School received a valid SAR/ISIR by the date established by the Department.

¹ Within this chart, the rules for a Pell Grant also apply to Iraq and Afghanistan Service Grants.

² A school may not originate a Direct Loan for a loan period in which the student is no longer enrolled on at least a half-time basis, even if the student is otherwise still enrolled at the school.

³ For all programs, the late disbursement is made no later than 180 days after the date of the school's determination that the student withdrew, or, for a student who did not withdraw, 180 days after the student became ineligible.